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PROBLEMS AND PROSPECTS FOR EXPANDING TRADE BETWEEN BRAZIL AND PORTUGUESE SPEAKING AFRICAN COUNTRIES*

*This summary of policy issues is based on a study prepared by a consultant, Mr. Jean Marie V. Pelmbira. The main study will be issued as a supplementary document bearing the same symbol number.

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I. INTRODUCTION

1. The thrust of the report explores the problems and prospects for expanding trade between Brazil and Portuguese Speaking African (PSA) countries, namely Angola, Guinea-Bissau, Mozambique and Cape Verde. Together, the four countries have a population of 19.4 million people with a total GDP of US$5026 million and exports of US$2159 million.

2. The population in the PSA countries is equivalent to 5 per cent of the total population in Sub-Saharan Africa (SSA). Their share in the GDP is 2.5 per cent. In terms of land area the PSA countries occupy 9.4 per cent of the total land area in SSA. Angola and Mozambique are by far the largest countries and are relatively well endowed with natural resources. Angola is rich in oil and mineral resources while Mozambique has enormous agricultural potential. Both countries are members of the Southern African Development Co-ordination Conference (SADCC) and for this reason the prospects for expanding trade and economic cooperation between them and Brazil are analyzed from an overall SADCC region development perspective. The main points coming out of the four sections, the appendix tables and the annex on exchange and trade arrangements in each country are summarized below.

II. RECENT MACRO-ECONOMIC DEVELOPMENTS AND SITUATION OF TRADE

3. Details of the economic situation in Brazil and the PSA countries are contained in the section on some recent micro-economic developments and the situation in the area of trade.

Brazil

4. Brazil is well endowed with vast agricultural and mineral resources and since World War II there has been rapid industrialization and very high rates of economic growth. Between 1965-1983 per capita GNP increased at an average rate of 5 per cent p.a. in constant terms to reach US$1800. Between 1965-1973 overall GDP increased by 9.5 per cent in real terms but slowed to 4.8 per cent p.a. between 1973-1983 primarily because of hostile external factors notably the escalating oil prices and falling prices for primary commodities. Brazil is highly dependent on imported petroleum and her exports are still dominated by primary commodities.

5. However recent forecasts in the National Plan for Development (PND) embracing the period 1985-1989 show that the Brazilian economy will recover and grow at a rate of 6 per cent p.a. The aggressive export drive embarked on since 1970 will continue. Since 1970 the total value of Brazilian exports has increased more than six-fold and dependence on imported petroleum has been reduced from 82.5 per cent in 1975 to 58 per cent in 1983. Brazil has increased her share in total world trade and dominates the international coffee, tobacco and cocoa trade by accounting for 21 per cent, 14 per cent and 13 per cent of the total supplies respectively. The country also supplies

24 per cent of total world iron ore and concentrates, 19 per cent of the animalfeed stuffs, 14 per cent of preserved fruit and 14 per cent of mixed vegetables (see Table 1). The success of her import substitution strategy is evidenced by the rising share of manufactured goods in the total export earnings from 10 per cent in 1970 to 32 per cent in 1982.

6. Brazil's impressive export performance however has been decolorized by soaring import bills resulting into chronic balance of payment deficits. Before 1981, the country ran a systematic visible trade deficit for the whole decade but managed to reverse the situation due to both the acceleration of the export drive and the imposition of a very tight import control policy. However, the positive trade balance has been wiped out by high payments for external services and capital outflows through the repatriation of profits and the servicing of external debt.

7. Brazil is the world's largest debtor nation owing US$100 billion to foreign banks. In 1982 the debt service ratio was 50 per cent. In February 1987 Brazil could no longer put up with the debt burden and unilaterally declared a moratorium by fixing the servicing of the national debt to only 2.5 per cent of the GNP. This decision limits the possibilities for the country to get loans from commercial banks abroad. This is only the balance of payment problem facing Brazil is fundamental as it could be a major bottleneck to the expansion of trade and economic cooperation between her and the PTA countries unless as is explained in the supplementary document, alternative non-conventional trading arrangements are designed to meet such a challenge.

Mozambique

8. After independence (1975) [illegible] had a positive growth of 2 per cent per annum. However after 1981 the economy deteriorated drastically falling by about 6 per cent per annum with per capita incomes now estimated to be below US$150. By early 1986 output indicators were showing that the economy was virtually grinding to a halt. The 1985 volume of crop production amounted to an average of 45 per cent of the corresponding 1981 figures, while other staples production averaged 53.5 per cent. Sharp decreases were also recorded in the mining, energy and industrial sectors. Underutilization of equipment represented 18 per cent of installed capacity in the textile enterprises and 7.6 per cent of the sugar processing plants.

9. The pathetic export performance led to a negative trade balance throughout the period but after 1982 the downward ration of trade balance has accelerated. The 1986 export earnings were only US$85 million compared to US$170 in 1982. On the other hand, imports have increased from a [illegible] average of US$400 million to US$800 million since 1982. Generally exports can finance less than one third of the country's imports. The overall balance of payment position is projected to deteriorate further after 1986 because since October 1986 South Africa has unilaterally rescinded an agreement allowing 60,000 Mozambicans to work in its mines thus causing the Mozambican Government a further loss of US$50 million that it would

have earned as official remittances of the miners salaries. The level of foreign debt stands at US$2.9 billion equivalent to 98 per cent of GDP and rules out the possibility for substantial lending from commercial banks abroad.

10. The main causes of the rapid decline are 3-fold. First and foremost is South Africa's destabilization, particularly its support to MNR. Economic activities in the rural areas including agriculture, export industries, trading posts, transport and Government human infrastructure have been targets for sabotage by MNR. South Africa has also boycotted or reduced both the volume and value of goods sent through Maputo port thus denying Mozambique the vital port fee earnings. The value of the destabilization by South Africa is estimated at about half the country's GDP. In 1986 the effort to contain the MNR insurgency was 42 per cent of total Government budget. Secondly, super imposed on the degenerating political situation has been a prolonged drought and other natural disasters such as floods starting in 1980 and continuing into the present.

11. However, some of the socialist economic policies adopted after independence have not borne fruit or remained unimplementable due to the limited managerial and technical manpower necessary to implement a socialist development strategy and the narrow tax base to support the concomitant huge public spending and investments. By 1983 the economy had deteriorated markedly and in a desperate effort to redress the situation the Mozambican Government took a number of steps including joining the IMF and World Bank in September 1984 and later signing the Lome III Convention. On the advice of the IMF she also adopted some policy reforms to improve the allocation of resources and restore production incentives including relaxation of price and trade controls. The first structural adjustment loan was obtained from the IMF/World Bank in 1987. Recently (February 1987) more comprehensive economic policy reform measures (called the Economic Recovery Programme) aiming at reviving the economy have been launched again on the advice and support of the IMF.

12. It remains to be seen whether the ERP will change the fortunes of Mozambique. In view of the current national unrest the prospect for market improvement lie in the control of the MNR insurgency but the ERP might at least eliminate the glaring economic distortions thus at least arrest or even reverse the rate of economic degeneration. Indeed military cooperation among the SADCC countries to control MNR insurgency has increased and with the support of external donors the Beira regional rail and road corridor has already been reopened. There is great optimism that if the SADCC countries get sufficient financial support from donors, they will assist Mozambique to control MNR insurgency thus paving a way for economic growth in this otherwise richly natural resource endowed country. The importance of Mozambique in the SADCC region and for that reason peace and development in Mozambique have direct regional implications, particularly for land locked Zimbabwe, Malawi, Botswana and Swaziland.

Angola

13. Since independence Angola's economic performance has been negative. Agricultural production has deteriorated markedly. In 1984/85 coffee exports were only 14 per cent of the 1974 levels in volume and in 1986 Cotton production was only 35 per cent the volume of 1974. The reasons for this poor performance are similar to those found in Mozambique. First independence saw the exodus of white settlers thus the abandon of large scale farms and their subsequent nationalisation by the Government. The new management was both inadequate and inexperienced to run them efficiently. Secondly, internal political confrontation escalated between the socialist oriented MPLA Government and the dissident UNITA group.

14. The latter are backed by South Africa and claim to control one third of the country. Finally, compounding the situation has been direct attacks and destabilisation acts by South Africa. Angola's close proximity to Namibia (which is occupied and ruled illegally by South Africa in defiance of UN Security Council Resolution 435 and her support to the SWAPO nationalists fighting for the independence of Namibia) makes Angola's destruction a major goal of the apartheid regime in South Africa. South Africa has literally declared war on Angola. At the time of writing this report thousands of South African troops are at war in Angola.

15. As a result of this unrest Angola's economy could have totally collapsed had it not been for the expanding production of crude oil. By 1985 oil production had reached 250,000 barrels/day and accounted for over 90 per cent of the total exports. Reserves of crude oil are estimated to be at least 1500 million barrels. The country has become the largest SSA oil producer after Nigeria. However internal unrest has not hindered foreign investments in the highly profitable oil sector. The country's debt stood at US$5799 million but the debt service ratio was only 12.6 per cent. However the burden of the war remains the major financial impediment to economic recovery and international trade. In 1984 defence outlays absorbed 80 per cent of the national budget and 50 per cent of the export revenues. As in Mozambique the revival of economic activities in Angola depends very much on the Government's success to control UNITA insurgency and on the fall of the apartheid regime in South Africa.

Guinea-Bissau

16. Following the pattern in the other PSA countries, the state of the national economy is far from healthy partly because of the long and protracted independence wars, pursuing economic policies whose results have yet to materialise and also because of the rather poor natural resource base. Imports outstrip exports by far and in 1981 debt servicing may have reached 72 per cent of export earnings while import payments were in arrears. The prospects for continued growth and trade depend greatly on economic policy reforms and on the alleviation of the debt burden by the industrialized countries.

Cape Verde

17. This tiny country of only 320,000 people (1992) lacks a strong export base and was long believed to offer little prospects for growth. Over the years imports far outweighed exports; the trade deficit is equivalent to more than 93 per cent of total imports. However the country's geographic position will be exploited to develop it into a major port and turn it into a gateway to West and North Africa. Talks to this effect is in progress with Brazilian assistance.

III. CURRENT TRADE AND ECONOMIC CONDITIONS

18. Of the 4 PSA countries, Angola is Brazil's largest trading partner. Angola's exports to Brazil are dominated by crude oil and have increased from an insignificant level of 0.1 per cent in 1974 to a full 8.3 per cent of total exports in 1992. Imports from Brazil include agricultural products and various manufactures and have increased from 0.94 per cent to 10.67 per cent of the total imports in the same period.

19. After a long period of decline, Mozambique's exports to Brazil appear to have picked up in 1992 to reach 7.34 per cent of the country's exports. Imports also increased considerably to 11.39 per cent of the country's total. The share of Brazil's exports into the total imports of Guinea Bissau was about 2.6 per cent in 1992 but has declined to only 0.59 per cent in 1994 probably because of inability to pay for these. The trade balance among Brazil and the PSA countries is generally in favour of Brazil although after 1981 Angola might have continued, to record a trade surplus as Brazil's oil imports from Angola have continued to increase.

IV. OPPORTUNITIES AND CONSTRAINTS TO FURTHER TRADE

20. During the colonial rule the African countries economies were shaped and geared towards supplying raw materials and other primary commodities to Europe and in return to purchase manufactured goods. Brazil's economy was shaped similarly to serve the interest of North America. Resulting from the success of Brazil's industrialization strategy she succeeded in breaking away from the colonial legacy but as a new she is still a dominant producer and exporter of agricultural products. The constraints and opportunities to expand trade between the two regions must be analysed in this historical context. In other words, the economic structures of these countries are more or less similar thus limiting the opportunities for exchange of goods. Further where opportunities for trade do exist they are constrained by the absence of well established trade links between the two regions.

21. The following factors were identified as hindering the expansion of trade and economic cooperation.

(a) Ignorance and lack of market information on both parties. Although the absence of a language barrier presents a great advantage to promote the development of economic cooperation between the 2 regions, at the moment only a few contacts have been made and the initiative has been mainly confined to the Brazilian side. It is recommended that a survey to establish an inventory of goods and services available and demanded by both parties should be made. On the basis of this inventory a comprehensive trade strategy be designed for Brazil, the PSP and the SADCC countries. As pointed out earlier Angola and Mozambique are members of the SADCC and economic cooperation with them is best promoted or undertaken in the regional context.

(b) For both historical and climatical reasons the composition of agricultural production and exports in the two regions are similar thus limiting the possibilities of exchange. It is recommended that to promote trade regional specialization according to comparative advantage must be worked at collectively.

(c) The poor economic performance on the African side means that even volumes of traditional exports to traditional markets are on the decrease. In other words these countries are facing problems to maintain their shares in traditional European markets, let alone to capture new markets in Brazil. It is recommended that the current economic reform policies seeking to arrest and even reverse the downward performance trend of the economy must be strengthened if increased trade with Brazil is to materialise. Brazil should therefore actively support the ERPs being implemented by these countries.

(d) Existing trade links and market structures are oriented to Europe and NOrth America. It is necessary to establish new links and market structures which will promote trade between the two regions in the field of transport, communications and financial institutions.

(e) Like the PSP countries, Brazil also has fundamental balance of payment disequilibria, and a large debt overhang. This situation means that the opportunities for trade between the two regions are limited unless a counter-trade strategy is adopted. It is accordingly recommended that a counter-trade strategy where goods and services are exchanged for goods and services be adopted. It is not worthy that counter-trade has already started between the two regions. For example, oil imports from Angola to Brazil are exchanged for manufactured goods and services notably for the construction of the Kapanda Hydro-electric power dam in Angola.

22. Turning to the mechanism of promoting trade through counter-trade, concerted efforts to alleviate its various bottlenecks narrated in the main study. In particular :

(a) Legislation and/or agreements being made to expand the possibility for counter-trade beyond the current Government-to-Government deals to the private sector. Mechanisms for monitoring and controlling abuse have to go hand in hand.

(b) Educating the business community about this option; and

(c) Setting up special financial institutions to assist this trade.

23. If Brazil wants to expand trade with the PSA countries she must also invest in their economic growth. In this regard Brazil should undertake joint ventures both at state and private level. Brazil can provide the machinery and technical manpower while the African Governments can meet the local cost. As far as possible specific investments in Angola and Mozambique should be made and designed to assist the rest of the SADCC countries, particularly in the transport sector.

24. Restricting conventional trade, the lack of foreign exchange also restricts Brazil's possibility to use its considerable technical know-how to assist the African countries to develop their economies. In the PSA countries Brazil can play a special role in economic development assistance because of having a common working language with them. It is recommended that to overcome this problem the UNDP model whereby Brazil offers the manpower and technical assistance and UNDP picks up the bill (i.e. provide the foreign exchange) should be adopted by other multilateral and bilateral donors. Sweden and other Nordic countries have also begun to resort to this alternative in recognition of Brazil's common language advantage and the relevance of Brazil's intermediate technology to the African region.